

Memorandum

To: Panel Members Date: June 26, 2003

From: Charles Lundberg, Manager
Peter DeMauro, General Counsel Analyst: K. Udarbe

Subject: One-Step Agreement for **HIT Products Corporation <100 (HUA)**
(www.hitproductscorp.com)

CONTRACTOR:

- Training Project Profile: Retraining: Companies with Out-of-State Competition
Training in High Unemployment Areas of California
- Legislative Priorities: Promotion of California's Manufacturing Workforce
Moving to a High Performance Workplace
Stimulating Exports and Imports
- Type of Industry: Manufacturing
- Repeat Contractor: No
- Contractor's Full Time Employees:
 - Company Wide: 85
 - In California: 83
- Fringe Benefits: Yes
- Union Representation: No
- Name and Local Number of Union
representing workers to be Trained: N/A

CONTRACT:

- Program Costs: \$123,080
- Substantial Contribution: \$ 0
- Total ETP Funding: \$123,080
- In-Kind Contribution: \$71,415
- Reimbursement Method: Fixed-Fee
- County(ies) Served: Tulare
- Duration of Agreement: 24 Months

THIRD PARTY SERVICES:

Rural Community Development Services of Lindsay, California at a cost of \$12,500 paid by the City of Lindsay to assist the company with the needs assessment and the development of the ETP application.

NARRATIVE:

HIT Products Corporation (HIT) is a privately held company founded in 1982 and headquartered in Lindsay, California. The company manufactures water-efficient products for residential and commercial turf and landscape irrigation.

The company is eligible for standard retraining under the Out-of-State Competition provisions outlined under Title 22, California Code of Regulations, Section 4416(b) for industrially-classified manufacturers retraining current employees.

According to the company, HIT has been a pioneer in the development and promotion of the two-wire water controller (i.e., timer) technology and has introduced several new products, including patented flush plug technology and pop-up spray-head designs. Recent innovations include expandable controller technology, a new range of pop-up spray heads, a new jar-top valve and an anti-siphon valve for the California irrigation market. HIT is also introducing a new telescoping pop-up head and an adjustable nozzle.

The company distributes its products through a network of irrigation distributors in California and exports its products to other national markets, such as Europe, Australia and the Middle East. In 2002, HIT's gross sales totaled \$7.8 million with 84 percent in the United States and 16 percent in international markets. The company is developing new markets in Canada, Mexico and South America. Company projections indicate that sales will grow to \$8.5 million in 2003, an increase of eight percent. Revenue and market share projections suggest that the size of HIT's workforce will need to increase by 118 percent between 2003 and 2008 to handle increased sales and production demands.

HIT's major competitors include Rain Bird, The Toro Company, and Hunter Industries. In recent years, companies in the irrigation manufacturing industry have aggressively pursued production cost reduction initiatives to improve profits and cash flow. For example, Rain Bird has established production facilities in Tijuana, Mexico and Nogales, Mexico. Toro closed the Riverside, California facility and moved the operations to El Paso, Texas and Juarez, Mexico. Hunter also has manufacturing operations in Mexico. These examples highlight one of the prevalent trends in the irrigation manufacturing industry.

HIT reports that out-of-state labor competition has placed increased pressure on the company to find ways to cut costs and increase productivity. Company management believes that workforce training and development programs offer a viable alternative to relocation. It plans to become more cost-competitive and gain greater market share by investing in workforce development.

NARRATIVE: (continued)

The company's proposed training program will help employees develop the competencies required to function effectively in an evolving high performance workplace. The training will help employees learn to: (a) work with new tooling, new machines, and new design technologies, (b) implement new productivity approaches such as team-centered cellular manufacturing, resource planning, master scheduling, and (c) manage quality through processes such as statistical process control.

The company proposes to begin the training program on August 1, 2003 and all training will occur at company headquarters in Lindsay, California.

The proposed ETP-funded training will enable HIT to offer employees the formal training needed to develop key competencies that will help them and the company excel in the irrigation manufacturing market. The company describes the types of training as follows:

MANUFACTURING SKILLS training will be provided to all trainees in the program, including section leads, supervisors, service technicians, set-up technicians, machinists, and an engineer. Many employees understand how to perform their specific job tasks, but without a full understanding of the manufacturing process or the materials and technology with which they work. Because of this limited understanding, employees miss opportunities to improve productivity and quality. They also are ill prepared to train others or to assume supervisory responsibilities. This training will give all employees a strong foundation in the manufacturing principles and processes that are critical at the company. The proposed curriculum includes topics such as principles of mold design, properties of plastics, understanding machine technology, troubleshooting tools & techniques, and program logic controls (PLC). The engineer and machinists will receive additional training to help them apply recent advances in computer-aided design and computer-aided manufacturing. At the end of the training, employees will be better able to recognize manufacturing problems, recommend solutions, and improve productivity and quality. Cross-training will provide employees with a better understanding of the entire end-to-end manufacturing process and will open up more avenues for lateral movement within the company.

CONTINUOUS IMPROVEMENT training will be provided for all trainees in the program, including section leads, supervisors, service technicians, set-up technicians, machinists, and the engineer. Continuous improvement training is necessary because the company is in the process of (a) creating work teams based on principles of cellular manufacturing and the theory of constraints and (b) adopting resource planning and master scheduling techniques to increase facility utilization. The training will be necessary to improve productivity, reduce re-work, and reduce the number of product batches rejected because they do not meet HIT's standards of quality. The proposed curriculum includes topics such as resource planning, master scheduling, statistical process control, total quality management principles, and problem solving. This training is central to the company's effort to adapt to the requirements of a high performance workplace.

COMPUTER SKILLS training will be provided to employees who will be required under the new continuous improvement system to analyze data and create, access, and/or submit reports. The company is in the process of installing computers inside selected manufacturing areas. Section leads, supervisors, service technicians, and set-up technicians will receive basic computer operation training to enable them to access reports and submit data. Many of these employees have little experience with computers and software. Section leads and supervisors will receive additional training to learn to use Microsoft Excel and software developed by IQ Management Systems (IQMS). Section leads and supervisors will use this software to create reports and analyze data. This training will enable HIT employees to better implement continuous improvement processes that will increase worker productivity and facility utilization.

NARRATIVE: (continued)

MANAGEMENT SKILLS training will be provided for all employees with management responsibilities, including one supervising engineer and nine supervisors. All of HIT's supervisors have been promoted from within HIT's ranks and none have received any formal management training. The proposed curriculum includes topics such as project management, budgets, and effective meetings. This training will give supervisors a formal introduction to several management practices and an opportunity to develop essential management skills. Employees who acquire new management knowledge and skills will help the company improve productivity through more effective project management.

LITERACY SKILLS training (i.e., vocational English as a Second Language) will be provided for six section leads whose limited English proficiency reduces their effectiveness on the job. These employees were identified by their supervisors. The proposed curriculum includes topics such as basic workplace terminology, following verbal and/or written instructions, and communicating needs and problems. This training will improve the employees' ability to follow directions and communicate with supervisors and team members about their work. The improved communication will increase productivity and reduce error rates and the corresponding re-work.

Supplemental Nature of Training

HIT currently has no formal employee training program. Employees receive incidental, on-the-job training from supervisors, section leads, and co-workers as the need arises. Supervisors generally pair a new employee with an experienced employee for the first few days of work. During this time, the new employee works beside the experienced employee, observing operations, asking questions, and receiving informal feedback as he/she learns to perform specific, job-related tasks. A few employees occasionally receive formal technical training to learn how to operate a new machine or use new software. Under the proposed ETP-funded program, HIT employees will follow a training calendar and receive structured classroom training and hands-on lab experiences.

The proposed training content differs substantially from current and past offerings. Current on-the-job training focuses on specific, job-related tasks. The proposed program will target fundamental principles and processes of manufacturing, management, and continuous improvement—topics never before offered to HIT employees. It will address the long-term knowledge and skills that employees must acquire to become competent and to help the company improve facility utilization, increase productivity, and decrease errors and re-work.

According to the company, the proposed training will not occur without ETP funding. Maintaining cash flow is essential for maintaining operations, and without ETP funding, HIT will not have sufficient cash flow to sustain the training program and plant operations.

In-Kind Contribution

The HIT is committing the following to the contract:

Wages and fringe benefits paid to trainees during training:	<u>\$71,415</u>
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COMMENTS:

Training in High Unemployment Areas of California/Wage Waiver Request

Unemployment Insurance Code, Section 10201.5, states in part:

“...for workers in regions suffering from high unemployment and low job creation, including the working poor, the Panel may waive the minimum wage requirements provided that the post-retention wage of each trainee who has completed training and the required training period exceeds his or her wage before and during training. This determination shall be made on a case-by-case basis to ensure that post-training improvement in earnings are sufficient to warrant the investment of public funds.”

This Section of the Code gives the Panel the authority to waive the ETP minimum wage requirements for frontline workers in regions of the state where the unemployment rate is significantly higher than the state average.

This proposal affects frontline, full-time production workers in Tulare County, a California county with a significantly high unemployment rate, exceeding the state average by 25 percent or more. Based on Employment Development Department (EDD) figures for March 2003, the specific unemployment rate in Tulare County is 18.3 percent, while the statewide rate is 6.8 percent. HIT requests a wage waiver for employees who make less than the required ETP minimum wage for 2003 of \$10.98 per hour. The waiver will allow employees earning \$8.24 per hour or more to be enrolled in the training program.

Twenty-two of the employees in the proposed training program earn less than \$10.98 per hour. These employees earn a base wage ranging from \$7.66 to \$9.64 per hour. The dollar value of employer-paid health benefits equals \$0.58 per hour which raises the wage for these employees to a minimum of \$8.24 per hour as required by the ETP waiver.

These employees were hired with little or no prior experience or formal training related to their responsibilities. They perform simple tasks such as component assembly, packing, shipping, and limited machine operation.

The proposed training program will help these employees develop the competencies necessary to excel in a greater variety of manufacturing positions, merit higher and/or more frequent wage increases, and prepare for advancement within the company. The company expects to enjoy greater productivity from a better trained workforce.

Upon completion of the training and the ninety-day retention period, all of these trainees will receive at least a seven percent increase to their base wages (not including additional, employer-paid health benefits).

Contractor agrees that during ETP-funded training hours, trainees will not produce products or provide services which will ultimately be sold.

PROPOSED ACTION:

Staff recommends that the Panel approve this One-Step Agreement and the applicant's wage waiver request if funding is available and the project meets Panel priorities. This recommendation is based on the commitment made by the Contractor to increase the employee minimum wage per hour for Jobs 1, 2, 4 and 6 by at least 7 percent. ETP funding will promote the manufacturing workforce that is moving to a high performance workplace and provide support to a California small business faced with out-of-state competition.

TRAINING PLAN:

Grp/Trainee Type	Types of Training	No. Retain	No. Class/ Lab Videocnf. Hrs	No. CBT Hrs	No. SOST Hrs.	Cost per Trainee	Hourly Wage after 90 days
Jobs 1, 2, 4 and 6 Retrainee<100 (HUA)	Manufacturing Skills Continuous Improvement Computer Skills Literacy Skills (Job 2 Only)	22	113 - 174	0	0	\$2,260 - \$3,480	*\$8.78 - \$10.89
Jobs 3, 5, 7 and 8 Retrainee<100	Manufacturing Skills Continuous Improvement Computer Skills Management Skills (Jobs 3 and 8 Only)	19	130 - 190	0	0	\$2,600 - \$3,800	\$13.00 - \$26.44
						<u>Range of Hourly Wages</u>	
						*\$8.78 - \$26.44	
						<u>Prevalent Hourly Wage</u>	
						\$9.50	
						<u>Average Cost per Trainee</u>	
						\$3,002	
<u>Health Benefit used to meet ETP minimum wage:</u>					<u>Turnover Rate</u>	<u>% of Mgrs & Supervisors to be trained:</u>	
*Medical, dental and vision health benefits of at least \$.58 per hour may be used to meet the ETP Working Poor Minimum Wage of \$8.24 per hour in Jobs 1, 2, 4 and 6.					10.8%	24.4%	
**Following the 90-day retention period, the 22 trainees in Jobs 1, 2, 4 and 6 will receive at least a 7 percent increase to their base hourly wages.							

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Menu Curriculum

Class/Lab
113 – 190
hours

Trainees will receive training in any of the following:

MANUFACTURING SKILLS

- Manufacturing Processes & Operations
- Principles of Mold Design
- Properties of Plastics
- Computer-Aided Design
- Computer-Aided Manufacturing
- Understanding Machine Technology
- Program Logic Controls (PLC)
- Mold Set-up, Maintenance, and Operation
- Reading Schematics
- Troubleshooting Tools & Techniques
- Preventive Maintenance
- Measurement Instruments
- Computer Numerical Control (CNC) Fundamentals

CONTINUOUS IMPROVEMENT

- Master Scheduling
- Statistical Process Control
- Theory of Constraints
- Cellular Manufacturing
- Total Quality Management Principles
- Resource Planning
- Teamwork
- Conflict Resolution
- Planning & Goal Setting
- Leadership
- Change Management
- Problem Solving & Decision-Making
- Training, Coaching, and Mentoring
- Performance Management

MANAGEMENT SKILLS (Jobs 3 and 8 Only)

- Project Management
- Budgets
- Effective Meetings

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Menu Curriculum (continued)

COMPUTER SKILLS

- Basic Computer Operation
- IQ Management Systems (IQMS) software
- Microsoft Excel

LITERACY SKILLS (Job 2 Only)

– VOCATIONAL ENGLISH AS A SECOND LANGUAGE

- Basic Workplace Terminology
- Following Verbal and/or Written Instructions
- Communicating Needs and Problems
- Collecting and Recording Data